CONNECTING IDAHO

Prepared by the

Idaho Transportation Department

January 31, 2005

CONNECTING IDAHO

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IDAHO

January 31, 2005

GARVEE INVESTMENTS

SH-16 Extension

- *I-84 to South Emmett* (25 miles, $157 million)— This project would connect I-84 between Nampa and Meridian with SH-16 and proceed to the bottom of Freezeout Hill. It is expected to be a controlled access, four-lane, divided highway between I-84 and SH-44. Interchanges would be placed at locations defined through the public-involvement process. It would be a four-lane divided highway from SH-44 to Emmett, including a connection to SH-16.

- *South Emmett to Mesa* (80 miles, $157 million)— This would be a four-lane, divided highway from the bottom of Freezeout Hill to an intersection with U.S. 95 near Mesa at the north end of Indian Valley. This project would construct bridges over major drainages and add a connection to SH-55.

U.S. 20

- *St. Anthony to Ashton* (14 miles, $31 million)— This section of U.S. 20 would be upgraded to a four-lane, divided highway with bridges for county roads where appropriate. The project would complete the 57-mile, four-lane route from Idaho Falls to Ashton.

U.S. 30

- *McCammon to Soda Springs* (13 miles, $187 million)— This series of projects would complete a four-lane roadway from I-15 at McCammon to Soda Springs. The first segment runs from the interstate to the railroad crossing and Portneuf River west of Lava Hot Springs. The second segment would go from west of Lava Hot Springs to the bottom of the Fish Creek grade, and would realign the road around Lava Hot Springs. It would include a major bridge over a wetland between McCammon and Lava Hot Springs, and reestablish the original channel of the Portneuf River as it existed 58 years ago. This project would complete a 33-mile, four-lane road from I-15 to Soda Springs on U.S. 30.

SH-75

- *Timmerman to Ketchum* (26 miles, $105 million)— This would provide a multi-lane highway with transit capability within the Wood River Valley. There is currently an Environmental Impact Statement being prepared to identify the roadway's location and the number of lanes.

GARVEE INVESTMENTS
(continued)

I-84
- *Caldwell to Meridian* (15 miles, $231 million)— This project would upgrade the existing interstate and interchanges to accommodate rapid growth in the Treasure Valley. It would add lanes from the Meridian Interchange to the Franklin Interchange in Caldwell, and provide new interchanges where needed, including several possible connections to SH-16. This would enhance both the safety and mobility of the route. Existing county road bridges would also be replaced to meet current needs.

- *Orchard to Isaacs Canyon* (9 miles, $343 million) — This would upgrade the existing interstate and interchanges to accommodate rapid growth in Boise. The upgrades would begin at the Cole/Overland Interchange and end near the Isaacs Canyon Interchange. Additional lanes would be added and the designation of transit lanes investigated to improve safety, mobility, and air quality.

U.S. 93
- *Twin Falls Alternate Route and New Snake River Crossing* (14 miles, $184 million) — These projects would complete the work to move U.S. 93 off Blue Lakes Boulevard in Twin Falls to better accommodate commercial traffic traveling between Nevada and I-84. The Twin Falls Alternate route would upgrade the road to four lanes and add a bridge, which will allow the wetlands and riparian habitat of the Rock Creek Canyon to be reestablished. The New Snake River Crossing would connect the alternate route with I-84 somewhere between Wendell and Jerome.

U.S. 95
- *SH-1 to Canadian Border* (15 miles, $31 million) — The project would complete a four-lane roadway from the Junction of SH-1 near Copeland to the U.S. Customs facility at Eastport. The project would avoid environmental impacts to an extensive wetland area within the corridor. This project would complete a 16-mile, four lane route.

GARVEE INVESTMENTS
(continued)

- *Garwood to Sagle* (29 miles, $157 million) — This project would create four-lane, divided highway between Coeur d' Alene and Sandpoint with full access control requiring interchanges at appropriate locations. The final product would be similar to U.S. 20 between Idaho Falls and St. Anthony. Environmental impacts would be avoided or mitigated, and may include special accommodations for animal crossings. This project would provide a 52-mile multi-lane, high-performance highway from I-90 in Coeur d' Alene to Colburn.

- *Worley to Setters* (6 miles, $22 million) — This would extend the recently completed Bellgrove-to-Mica project. It would be a four-lane, divided highway except in those areas where topography or environmental concerns require the lanes to run adjacent. Median barriers would be provided where necessary, and major bridges built to avoid impact to Lake Creek. U.S. 95 through Worley would also be improved. This project would complete a 21-mile effort that began in 1998 and complete a 28-mile, four-lane route from Worley to Coeur d' Alene.

- *Thorn Creek Road to Moscow* (7 miles, $18 million) — This four-lane, divided highway would complete U.S. 95 between Moscow and the top of the Lewiston Hill. The alignment will be selected after the completion of an environmental impact statement that is currently underway. The project would provide 48 miles of four-lane road from the Spaulding Bridge east of Lewiston to Moscow.

- *Smokey Boulder to Hazard Creek, N. of New Meadows* (5 miles, $19 million) — This project along the Little Salmon River would provide a straighter, safer, high-speed highway with passing opportunities.

TOTAL MILES:	**258**
TOTAL INVESTMENT:	**$1.6 billion**

CURRENTLY PROGRAMMED PROJECTS

(Held Harmless FY05 to FY09)

ROUTE	LOCATION		MILES	COST
US 95	Lower Eastport Moyie Rv Br	Bridge	0	$2,485,000
	MP 530 to Idaho/Canada Border	Widening	3	$11,858,000
	Sandpoint, North and South	New Route	9	$70,039,000
	Setters Rd to Bellgrove Stage 2, Kootenai Co	Widening	6	$32,441,000
	Top of Lewiston Hill to Thorn Cr Rd	Widening	11	$50,342,000
	Camas Prairie Rest Area	Rest Area	0	$2,148,000
	Council Alternate Route	New Route	3	$7,413,000
	Weiser, South	Widening	1	$11,391,000
	Jct SH 55 to Homedale City Limits	Widening	7	$15,549,000
I 90	Huetter Rest Area	Rest Area	0	$9,888,000
	Pinehurst Interchange, Shoshone Co	Interchange	0	$1,696,000
I 84	Snake Rv View Rest Area Rehabilitation	Rest Area	0	$1,200,000
	Franklin Rd Interchange, Caldwell, Phases 1 and 2	Interchange	0	$36,134,000
	Karcher Interchange, Nampa	Interchange	1	$39,024,000
	Locust Grove Grade Separation	Bridge	0	$5,755,000
	Black Cr Rest Area, East of Boise	Rest Area	0	$13,230,000
	Cotterel Rest Area	Rest Area	0	$7,330,000
US 93	Twin Falls Alternate Route, Stages 1 and 2	New Route	6	$50,086,000
SH 75	Bellevue to Hailey	Widening	3	$4,313,000
	Shoshone, North	Widening	7	$22,800,000
I 86	Chubbuck Interchange to Pocatello Cr Interchange	Widening	1	$18,266,000
I 15	Cherry Cr Northbound Rest Area Rehabilitation	Rest Area	0	$1,200,000
	Inkom Rest Area	Rest Area	0	$7,700,000
	Clark St Overpass, Pocatello	Bridge	6	$6,765,000
	Sunnyside Interchange to I 15B, Idaho Falls	Interchange	0	$38,085,000
US 30	Topaz to Jct SH 34	Widening	15	$35,641,000
US 20	Hitt Rd Interchange	Interchange	2	$14,230,000
	Rigby North and South	Reconstruction	8	$15,080,000
	Holbrook Rd, Jefferson Co	Interchange	0	$3,012,000
	Menan-Lorenzo Interchange, Jefferson Co	Interchange	0	$9,090,000
	Thornton Interchange, Madison Co	Interchange	0	$10,443,000
	TOTAL		**88**	**$554,634,000**

INVESTMENT BENEFITS

- 75,200 jobs in the following sectors:
  - Construction
  - Services (suppliers, fabricators, equipment, etc.)

- $4.6 billion benefit to the Idaho economy

- $2.9+ billion in additional sales in the following sectors
  - Manufacturing
  - Business Services
  - Service Industry
  - Tourism/Recreation
  - Agriculture

Effects will continue past the construction period

The improved system will be a major selling point to companies looking for a cost-effective environment

FOUNDATIONS FOR USE

- Maintain system condition at current levels
- Maintain the current five-year construction program
- All projects must be included in Statewide Transportation Improvement Program
- All improvements designed to last 40+ years
- All projects developed in accordance with state and federal laws and rules
- Size projects to accommodate Idaho contractors
- Do not raise taxes to pay for bonds
- Do not increase staffing to deliver the GARVEE-bonded projects

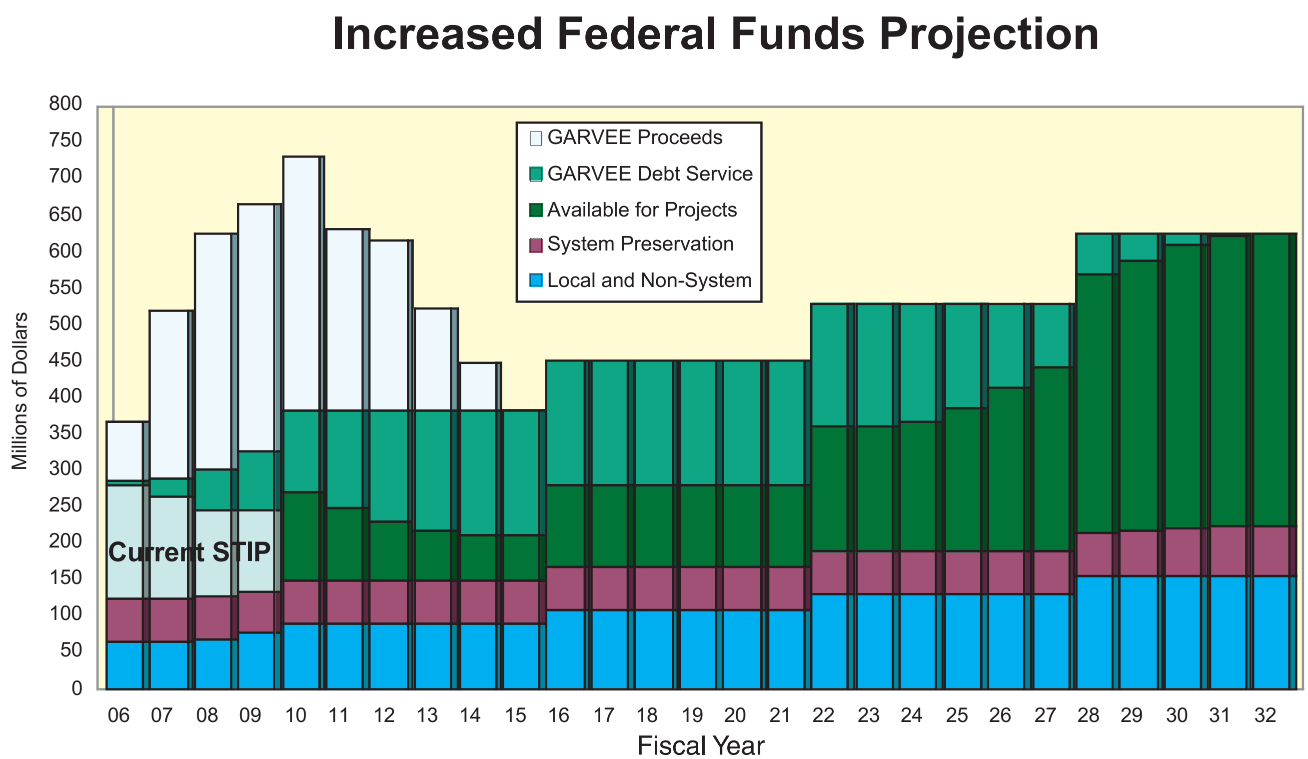
ASSUMPTIONS

- 10% state participation in interest, underwriting fees, and state match
- 4.75% interest rate
- 3.3% estimated annual growth rate in federal revenues
- 0% estimated annual growth rate in state revenues
- Each bond will be paid over an 18-year period
- Bond state portion of project costs
- $58.7 million annual commitment of funding for preservation of existing system
- $65.2 million annual commitment of funding for local system and non-system
- First bond anticipated in January 2006
- Final bond to be issued in 2014
- Final debt-service payment in 2032

TOTALS

- 2004 value of projects: **$1.64 billion**
- Program costs: **$2.02 billion** (2004 value plus allowance for inflation to 2014)
- Bond payments: **$3.06 billion** (principal plus interest over 26 years)

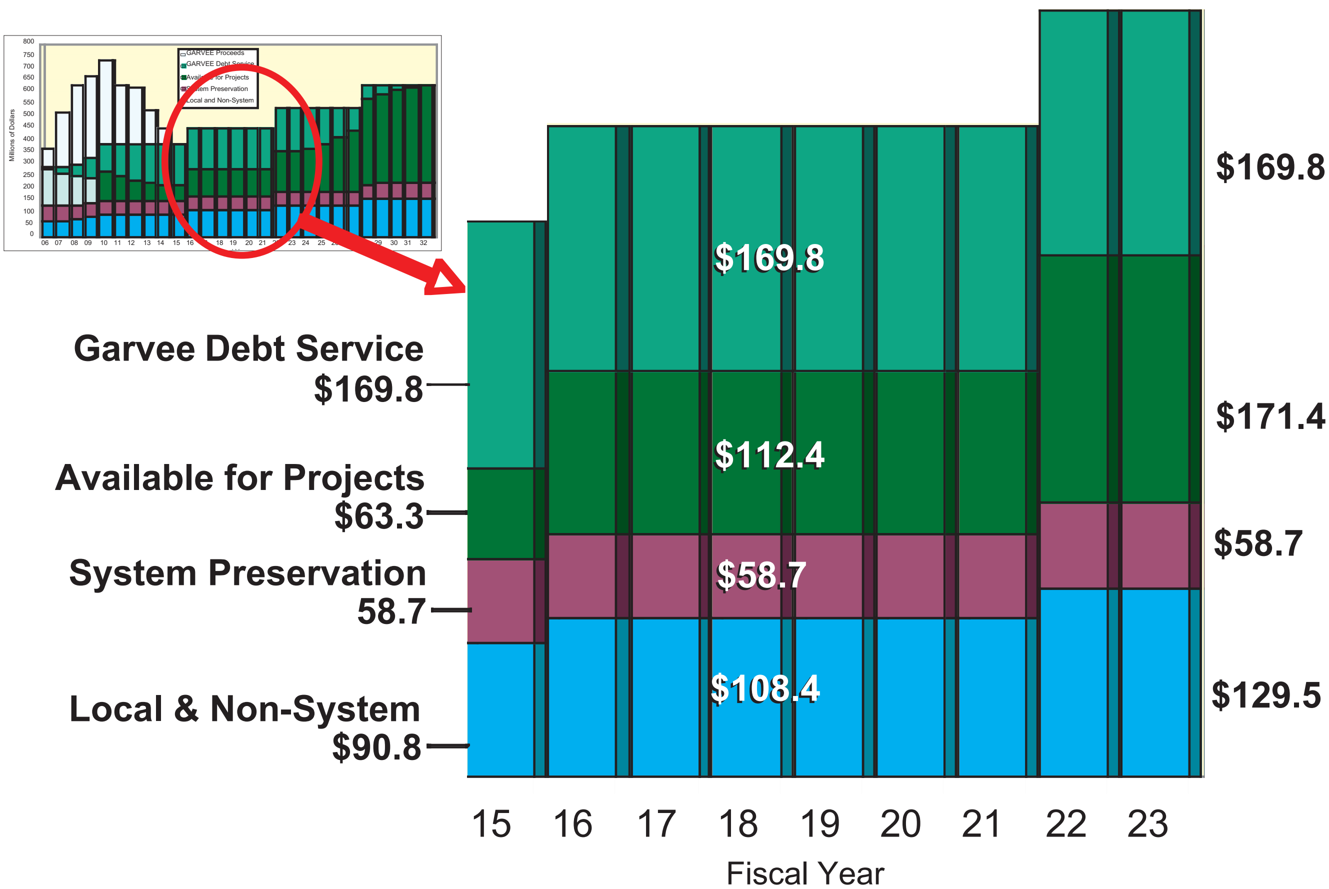
INVESTMENT IMPACT ANALYSIS



Bonding Scenario:
- **3.3% annual increase in federal funding**
- **No annual increase in state funding**

INVESTMENT IMPACT ANALYSIS

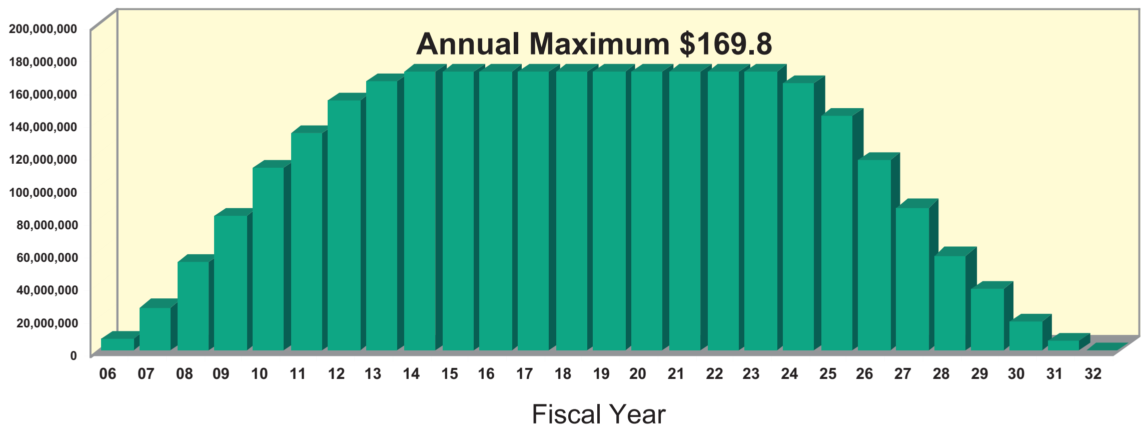
Increased Federal Funds Projection



INVESTMENT IMPACT ANALYSIS

GARVEE Debt Service

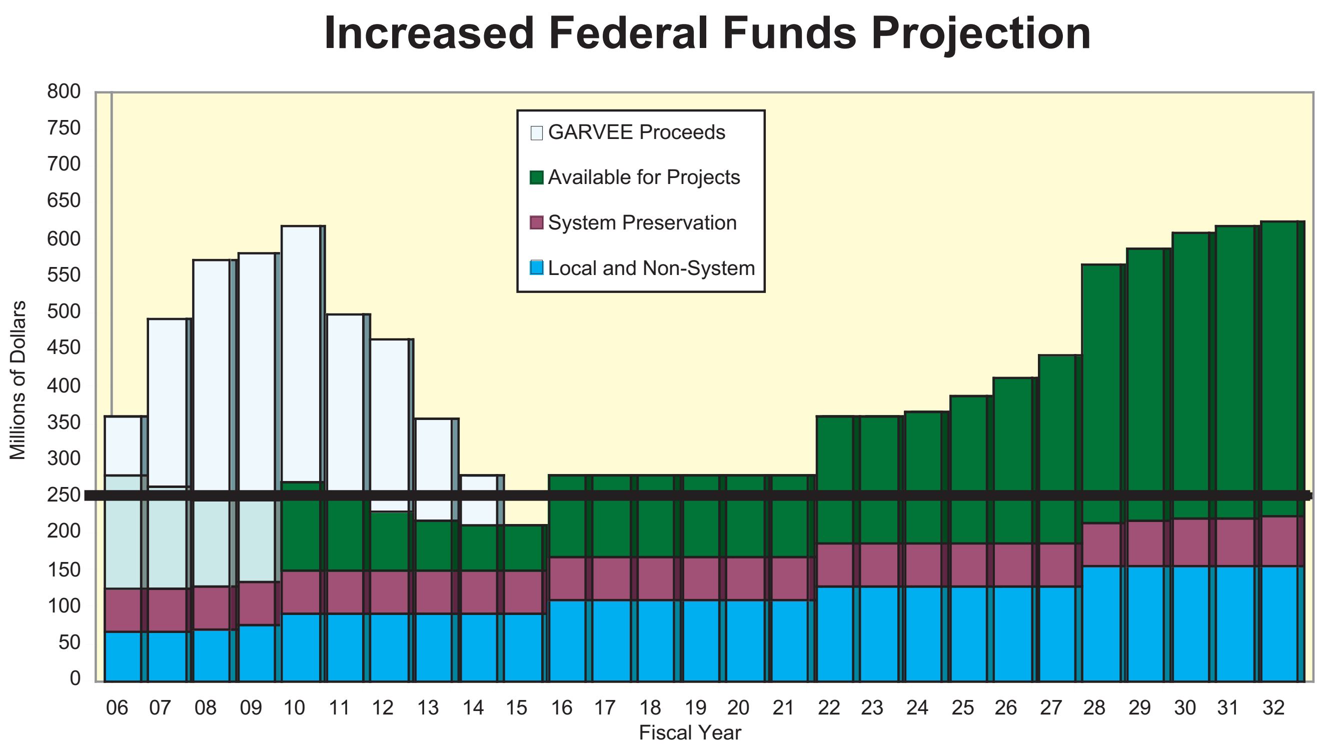
(Increased Federal Funds Projection)



Debt Service as a % of Total Budget and Federal FHWA Funds

FISCAL YEAR	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32
Total ITD Budget	1	5	11	15	19	22	26	28	29	29	25	25	25	25	25	25	22	22	22	19	15	12	7	4	2	1	0
Federal FHWA Funds	2	9	18	24	28	33	38	41	42	42	35	35	35	35	35	35	29	29	28	25	20	15	8	5	2	1	0

CONSTRUCTION IMPACT ANALYSIS

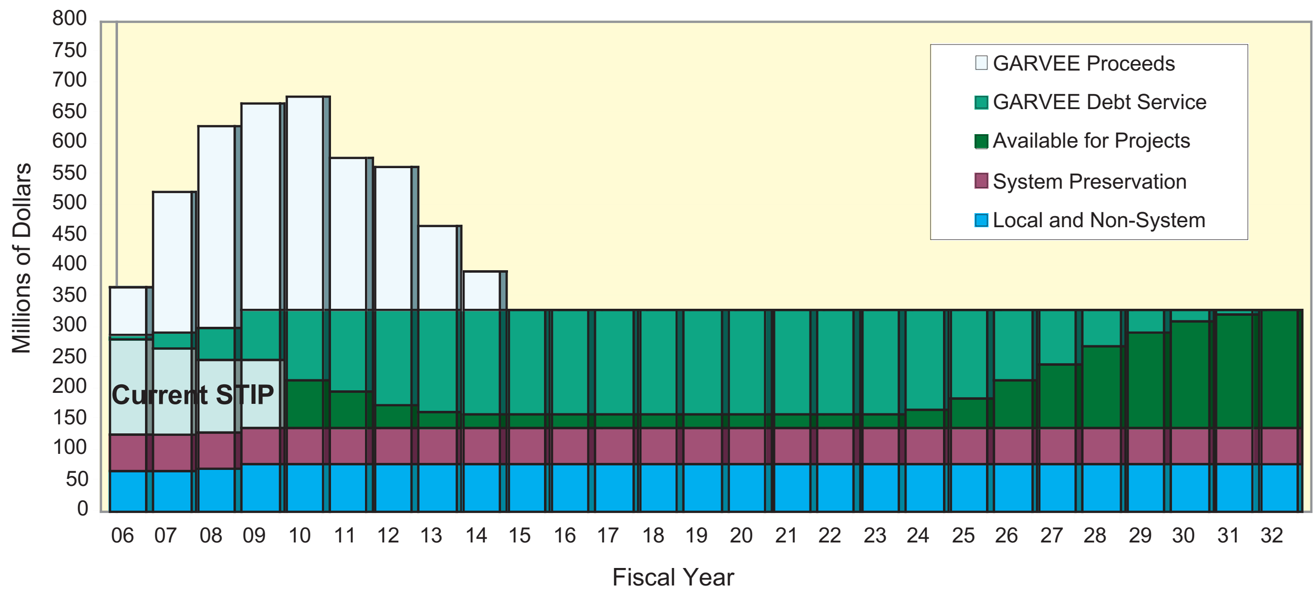


Bonding Scenario:

- **3.3% annual increase in federal funding**
- **No annual increase in state funding**

INVESTMENT IMPACT ANALYSIS

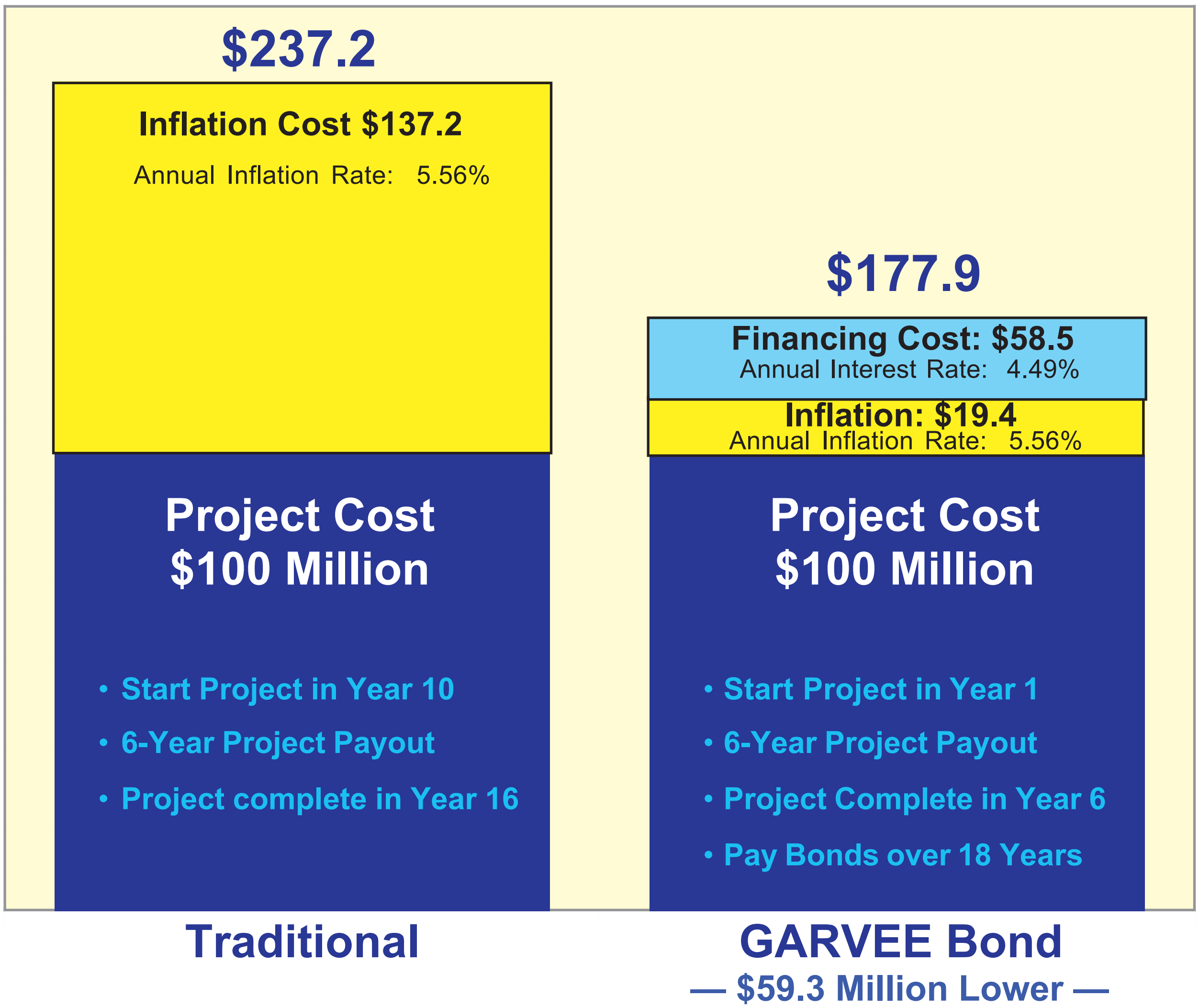
Static Federal Funds Projection

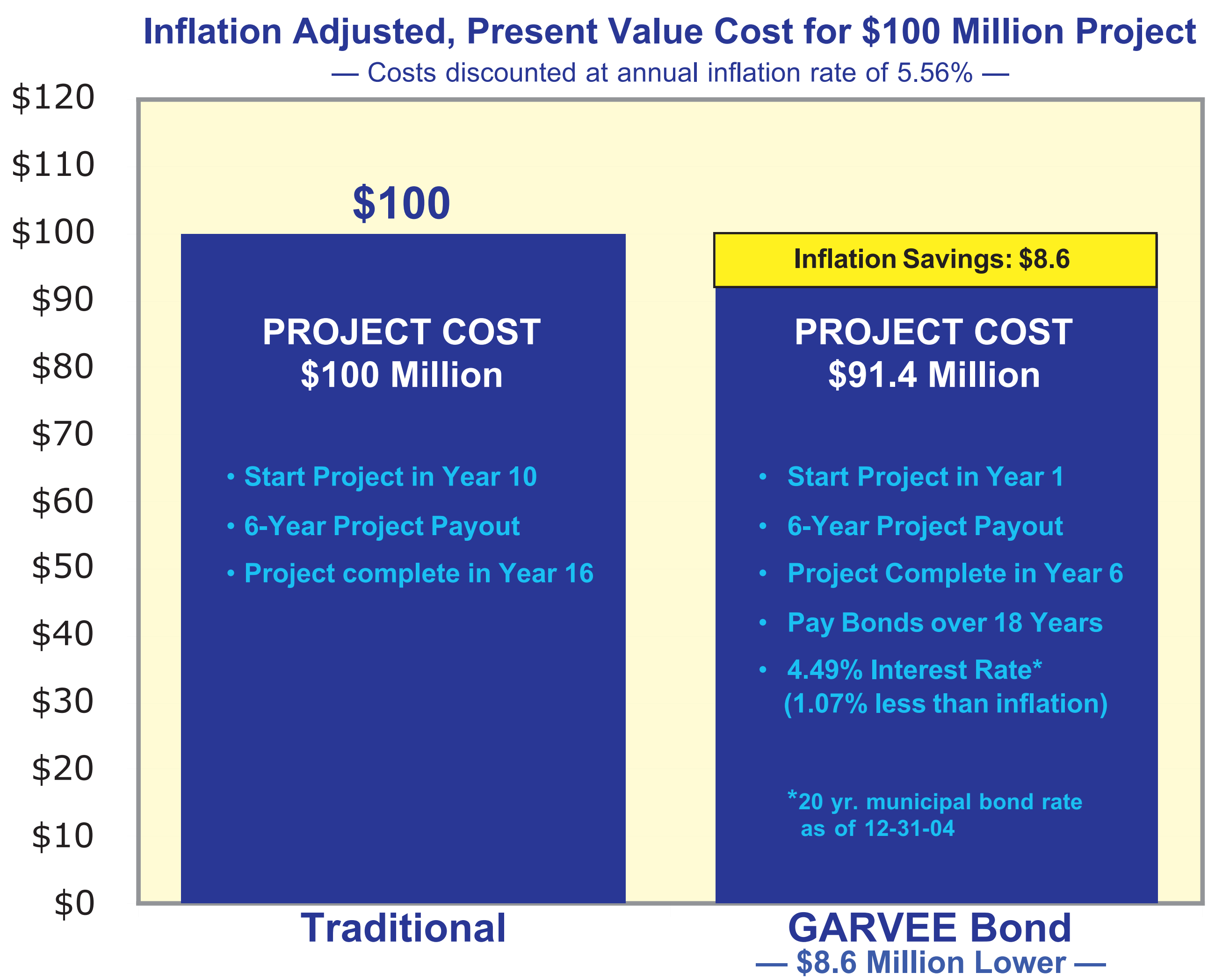


Bonding Scenario:

- **No increase in federal funding**
- **No annual increase in state funding**

Total Payout for $100 Million Project




Inflation Adjusted, Present Value Cost for $100 Million Project
— Costs discounted at annual inflation rate of 5.56% —
$120
$110
$100
$90
$80
$70
$60
$50
$40
$30
$20
$10
$0
$100
PROJECT COST
$100 Million
• Start Project in Year 10
• 6-Year Project Payout
• Project complete in Year 16
Inflation Savings: $8.6
PROJECT COST
$91.4 Million
• Start Project in Year 1
• 6-Year Project Payout
• Project Complete in Year 6
• Pay Bonds over 18 Years
• 4.49% Interest Rate* (1.07% less than inflation)
*20 yr. municipal bond rate as of 12-31-04
Traditional
GARVEE Bond
— $8.6 Million Lower —

GARVEE QUESTIONS AND ANSWERS

Q: **Will the bond payments affect funding for maintenance activities?**
A: No. Bond payments will be made from federal funds. Maintenance activities are paid for by state funds.

Q: **Would GARVEE bonding mortgage our future and limit our flexibility?**
A: No, because the citizens of this and future generations get the benefit of improved transportation and community well being 10 to 15 years earlier. GARVEE bonds are a tool to leverage federal dollars and will require the same due diligence that is demanded for the funding of any federal highway project: it must be part of a fiscally constrained program. In addition, the bond issuances would be potentially staggered over nine years, providing the flexibility necessary to make decisions based upon current factors.

Q: **Will Idaho's proposal be different from Utah's experience?**
A: Yes. Utah did not use GARVEE bonds. Instead, Utah issued general obligation bonds which pledge the full faith and credit of the state and are tied to general funds. Idaho's proposal is for bonding federal funds. (See page 22.)

Q: **Would this affect the General Fund?**
A: No. Transportation funding in Idaho is provided through state and federal fuel tax revenues and not through the General Fund.

Q: **Who would select the projects to be bonded?**
A: The Idaho Transportation Board would select from an eligible list of projects as part of the proposed legislation.

Q: **Does Idaho have enough state dollars to match the bonded dollars?**
A: Yes. Bonded projects require the same match as any other federally funded project. The proposed legislation is written to allow Idaho to pay the match over time.

Q: **Will $1.6 billion overextend the transportation department?**
A: No. In the peak year of debt service, the maximum amount of federal dollars that will go to pay debt service on the proposed bonding program will be 42 percent of the total annual federal allotment. This is approximately 30 percent of the Idaho Transportation Department's total annual budget.

GARVEE QUESTIONS AND ANSWERS
(continued)

Q: **What happens if our federal funding gets lowered?**
A: GARVEE bonds may be insured against a change in federal funding, though the 50+ year history of federal funding shows a trend of increases. (See page 18.)

Q: **Can bonding lower the cost of highway projects?**
A: Yes. In an analysis of a sample $100 million project, Idaho would save $8.6 million in total dollars paid by using GARVEE bonding over the traditional funding method. (See charts on page 13 and 14.)

Q: **How many years before the highways need to be rebuilt?**
A: All Idaho state highways are designed to last 40+ years.

Q: **Can we ensure that the projects aren't too big for Idaho contractors to bid on?**
A: Yes. Most projects can be sized to accommodate Idaho contractors.

Q: **What has been the experience of other states with GARVEE bonds?**
A: GARVEE bonds have been used by a variety of entities in amounts ranging from $575 million to $1.9 billion. None have defaulted. Maine issued almost $50 million in GARVEE bonds in December, despite the lack of a federal reauthorization bill.

Q: **Is GARVEE bonding a good tool for Idaho?**
A: Yes. GARVEE bonds allow states to maximize the flexibility of their current federal funds without pledging the full faith and credit of the state and without raising taxes.

Q: **Is GARVEE bonding constitutional?**
A: Yes. The proposal, with the approval of the legislature, would allow bonding of future federal highway funds without pledging the full faith and credit of the state of Idaho.

HOW WERE PROJECTS SELECTED FOR GARVEE BONDING?

Transportation touches the lives of all Idahoans. It affects the state's economic well-being, mobility, and safety. Safe and efficient transportation supports the freedom and opportunity Idahoans cherish.

Governor Kempthorne's transportation initiative—*Connecting Idaho*—proposes modernizing the state's highway system, increasing safety and boosting the economy without raising new taxes. By investing in seven key corridors, transportation service will improve in all 44 counties and benefit almost 80 percent of Idaho travelers and commercial truckers.

The Connecting Idaho initiative is intended to meet the expectations of state's highway users today.

The foundation of Connecting Idaho rests in the results of:

- long-range planning at state and local levels,
- the broad-based input received by the Governor in his interactions and travels across the state and in his national experience,
- and focuses at closing or filling gaps in key transportation corridors.

The Governor relied on planning by the Idaho Transportation Department[1] and input from citizens and local leaders received while traveling the state. The Idaho Transportation Board's long-range plan emphasizes the importance of completing four-lane highways through key corridors.

The *Connecting Idaho* initiative "fills gaps" that exist on the state's key corridors. On many of our transportation corridors, the road constricts from a modern, four-lane highway to a narrow, country road. The Connecting Idaho initiative: completes the 57-mile freeway from Idaho Falls to Ashton; finishes the 33-mile four lane highway from McCammon to Soda Springs on U.S. 30; upgrades the multi-lane roadway from U.S. 20 to Ketchum; modernizes I-84 through the Treasure Valley; completes the Twin Falls Alternate Route and provides a second Snake River crossing; links modern sections of U.S. 95 together through five projects; and constructs a new connection from I-84 to Mesa.

[1] Idaho State Highway Plan 1997
Idaho Transportation Board Visioning Workshop 2000

WHAT HAPPENS TO GARVEE BONDS IF FEDERAL AID IS REDUCED?

There has never been a GARVEE bond issued by any State or Territory that has not met its debt service payment requirements. And the Congress has never failed to honor its commitment to the distribution of the Highway Trust Fund.

Federal Aid Growth
The first federal-aid highway funds were used in Idaho in 1917. The work consisted of constructing three steel bridges and 43 concrete bridges and culverts in Custer and Lemhi counties on what is now U.S. 93. The money became available through the Federal Post Roads Act of 1916.[1] Since that time Federal Aid to the Idaho for transportation projects has grown steadily. Federal funding for Idaho in 1992 was $112.4 million and in 2004 was $208.9 million for an average growth of 6.1% per year. While federal funding increases are not guaranteed, it is evident from prior experience that a sustained reduction is highly unlikely.[2]

GARVEE Process with FHWA
Debt issued under federal eligibility guidelines does not constitute a commitment, guarantee, or other obligation of the Federal Government. Projects are submitted to the FHWA Division Office and when approved, a signed agreement preserves the eligibility to reimburse debt related costs with future federal-aid funds. The federal share of a bond issue and related costs is at the same ratio as a project approved without bond financing.

Bond financed projects approved by FHWA are subject to the Clean Air Act. However, if a State has issued bonds approved by FHWA before a conformity lapse, FHWA will continue to reimburse that State during the conformity lapse. Both debt service payments and project cost remain eligible for reimbursement.[3]

GARVEE Process in Idaho (assuming legal authority)
Projects chosen to be funded by the issuance of debt will follow the same process of public involvement, Board approval and inclusion in the STIP as projects funded by the current federal financing model. The ITD Board will request the Idaho Housing and Finance Association to issue an appropriate series of bonds necessary to meet project payout schedule. Payments for project costs will be made from the proceeds received from the sale of the bonds. Debt service payments will be made according to the agreed schedule in the official bond statements from a draw down of federal highway trust funds and the required state match from state dedicated highway funds.

Investor Risks

15 of 17 States that have issued GARVEE bonds have secured the debt with only dedicated funding sources. The pledge to potential investors is the stream of future federal funds. Investors purchase these investment vehicles for the tax free benefits from both State and Federal taxes. In the highly unlikely prospect of a major reduction in federal funding sufficient to stop debt service payments, the investor assumes the risk.

A mitigation option to reduce the risk of default is for the State to purchase bond insurance. Purchasing bond insurance is an option that is used for the benefit of the issuer to get a better interest rate in the market but is not always used. Each issuance is evaluated to determine if bond insurance on all or part of the issue is a benefit. Of the 17 states or territories that have issued GARVEE bonds, 9 have purchased bond insurance on at least a portion of the bonds issued. There has never been a GARVEE bond that has not met its debt service payment requirements.[4]

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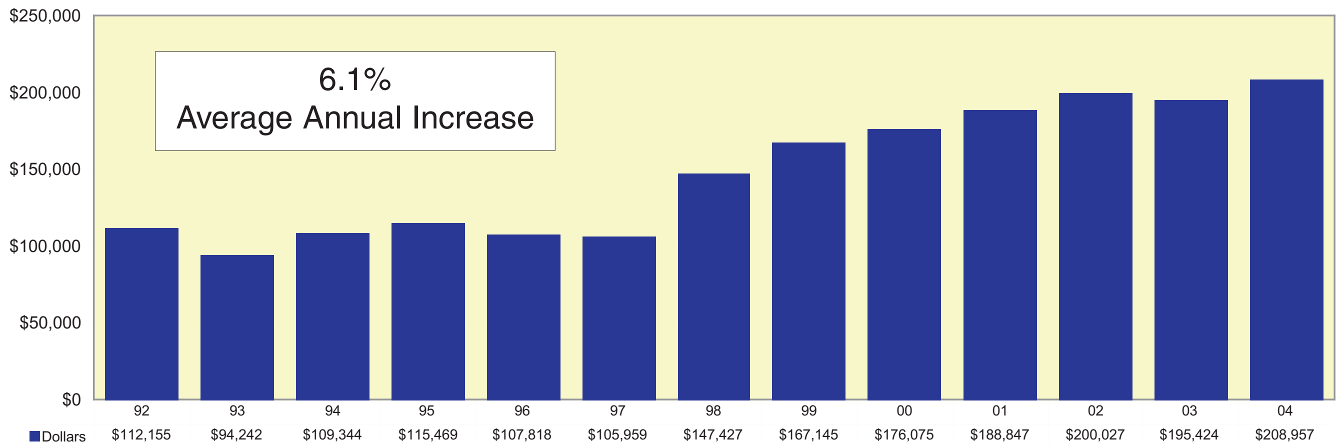
1 Idaho's Highway History, 1863-1975, p55

2 Federal funds obligation amounts provided by the Office of Transportation Investments (see attachment)

3 FHWA GARVEE Bond Guidance – March 2004

4 Information on Bond Insurance provided by UBS Financial

IDAHO'S FEDERAL HIGHWAY APPORTIONMENT HISTORY



GARVEE BOND RISK PROFILE

Investors who purchase GARVEE Bonds (the “Bonds”) will likely include both individual and corporate investors. The Bonds will likely have a range of maturities from two years out to a maximum of 18 years depending on the optimum bond structure at the time of issuance. The Bonds will be rated by at least two national rating agencies, and will be structured to produce a self-standing long-term investment quality rating of “A” or better.

The financing structure will likely include a bond insurer as a way to gain the lowest interest cost for the state, as well as provide added protection for bond investors. Likely bond insurers include FGIC (Federal Guarantee Insurance Corporation), FSA (Financial Security Assurance, Inc.), MBIA (Municipal Bond Insurance Association) and AMBAC. The security for the Bonds, and corresponding risks are outlined below:

Insured Bond Sale

The first layer of protection for GARVEE Bond investors is the continuing allocation of the state’s annual federal highway revenues. Bond investors will have a first right to these federal dollars. And, the annual debt service payment on all outstanding Bonds will be less than 50% of the state’s expected annual federal revenues. This effectively provides investors with a “coverage ratio” or cushion in case future federal highway payments are decreased.

The bond insurer provides the second layer of protection. Bond insurers are AAA rated entities that take on credit risk for a fee. In the unlikely event that annual federal highway revenues decrease to a level lower than the then current debt service payments on the Bonds, the bond insurer would be obligated to redeem all outstanding bonds at par value plus accrued interest.

The bond insurance will enhance the underlying rating on the bonds to a “AAA” level, and correspondingly, reduce the interest cost for the financing. The bond insurer receives an upfront fee of between .17% and .35% of the transaction amount, paid from bond proceeds.

In the event of a default, and after making the bond investors whole, the bond insurer would have a right to collect future federal highway revenues to the extent they once again become available and at the same level as provided to the original bond investors. The Idaho Housing and finance Association, as bond issuer, will not provide any credit backing for the Bonds and is not obligated to make any debt service payments on the Bonds.

Information provided by the Idaho Housing and Finance Association

UTAH'S CENTENNIAL HIGHWAY PROGRAM
BONDING FOR TRANSPORTATION IMPROVEMENTS

(Prepared by Thomas R. Warne, PE, Tom Warne and Associates, LLC)

In the mid-1990s the State of Utah had experienced a decade of unprecedented growth in its population and business development activities. While many benefits accrued to the state as a consequence of this growth there were three areas where pressure was building and solutions were needed. These were open space, water and transportation. Adding further pressure to the need for transportation improvements was the fact that Salt Lake City would host the 2002 Winter Olympic Games. In the 1996 and 1997 legislative sessions various solutions to address all three of these key elements of Utah's quality of life were put in place. In the case of transportation, the Centennial Highway Fund (CHF) was established to finance critical improvements to the state's infrastructure.

The Centennial Highway Fund was the product of over two years of significant outreach to stakeholders from across the state. Lists of projects were solicited by the executives of the Utah Department of Transportation (UDOT) and members of the State Transportation Commission. Input from all levels of government was sought and received. Ultimately, a list of some approximately 200 projects valued in excess of $3 billion was created. It was a list of critical improvements for which there would not be sufficient future funding even under the most optimistic of scenarios. Key among the projects was the $1.59 billion I-15 Reconstruction effort that became the catalyst for moving the state's leaders to action.

When the state legislature met in 1997 they faced a public with expectations for an improved transportation system, infrastructure in dire need of repair or replacement and little prospect for substantial funding. Utah, being the fiscally conservative state that it is, had historically chosen to pay for their transportation improvements on a "pay as you go" basis. This of course limited the state's ability to advance large projects like the I-15 reconstruction and other significant efforts.

The Governor and the state legislature determined that a new approach to financing transportation improvements was necessary. They chose to use two methods to finance future construction efforts. The first would be the traditional "pay as you go" approach for maintenance projects, surface treatments and other more routine and short-term needs. The second, where value would come to Utahan's for many generations, was to fund long-term improvements through the wise and deliberate use of debt financing. It became clear to these elected officials that

UTAH'S CENTENNIAL HIGHWAY PROGRAM BONDING FOR TRANSPORTATION IMPROVEMENTS

(continued)

there was good reason to spread the cost of a major capital project over a period of many years with all users, even those who would benefit in future years, carrying some of the burden of the necessary financing.

In addition, rigorous financial studies showed that early completion of projects netted significant benefits to the community. For example, the I-15 Reconstruction Project was finished in 4 1/2 years in lieu of the originally planned eight to ten. UDOT and state economists estimated that the savings accruing to the state were $500 million for construction costs as well as approximately $500 million in economic impacts on the community. The inflation costs associated with accelerating construction are very compelling and complimentary to the safety and other benefits that come with early construction.

Utah's legislature had already used debt financing for capital projects including university facilities and other government buildings. The decision to use this same tool for transportation projects was made easier by the success experienced on those projects. As with other states, Utah was constitutionally limited in its ability to use debt financing or bonding. Two major areas where these limits existed were in the type of bonds that could be used and the total amount of bonding or debt ceiling allowed. Only General Obligation (GO) bonds could be used to fund the desired transportation improvements and there is a debt ceiling that governs the degree to which bond financing can be used.

The Centennial Highway Fund was created in 1997 by the Utah legislature. It had two components. The first was the list of projects-43 in all which were selected from the original 200 submitted. These projects ranged from the largest-the I-15 Reconstruction project to smaller efforts in the $1 million range and everything in between. The second component to the Centennial Highway Fund was the plan of finance. This plan, as passed in 1997, included money to pay for some $2.83 billion worth of transportation improvements.

UTAH'S CENTENNIAL HIGHWAY PROGRAM
BONDING FOR TRANSPORTATION IMPROVEMENTS
(continued)

The CHF plan of finance was made of the following elements:
General fund transfers
State Construction Fund
Registration fees
Fuel tax revenues (5 cent increase, point of collection change)
Federal Funding (dedicated new funds from TEA-21)

Each of these elements contributed to the original 10-year, $2.83 billion Centennial Highway Fund.

While the amounts for each category have varied over the last seven years the following is the approximate annual value of the CHF's revenue components as they exist today:

General Fund transfers	$65,300,000
State Construction Fund	$ 6,000,000
Registration Fees	$19,000,000
Fuel tax	$66,000,000
Federal Funding	$40,500,000

The current value of the Centennial Highway Fund is now $3.35 billion due to increases in project needs and the addition of two projects to the list. Many of the projects have been completed well ahead of any conceivable schedule and are bringing benefits to the public.
There are some important lessons learned about the Utah bonding experience for the Centennial Highway Fund. A few of these lessons include:

- The original expectation of the legislature was that the bonds would be paid off in 10 years. This has since been adjusted to 20 years. Few debt financing initiatives choose a 10 year payback but this was a reflection of the basic "pay as you go" approach typical in Utah with the notion of reducing the term of the debt.

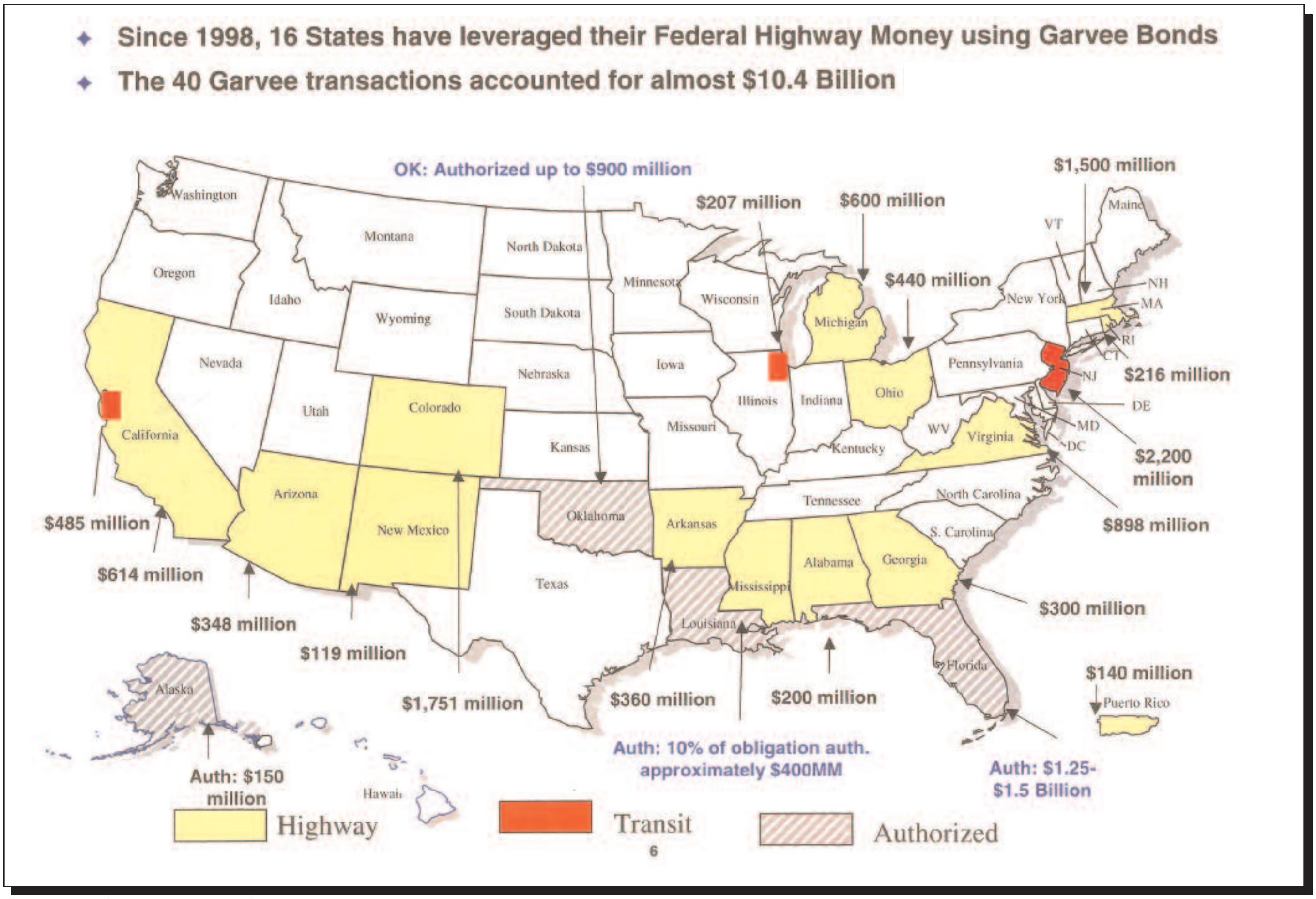
UTAH'S CENTENNIAL HIGHWAY PROGRAM
BONDING FOR TRANSPORTATION IMPROVEMENTS
(continued)

- The General Fund transfer portion of the CHF was adjusted downward from the original plan when the state budget was in need of additional cash for other programs during the recent recession. This changed the overall plan of finance and contributed to the need to extend the program from 10 years to pay back the bonds to 20 years.

- The public is willing to accept bond financing for long-term projects and wants needed improvements sooner than later.

The use of bonding for transportation projects has been a resounding success in the state. Utah will continue to use debt financing for its capital transportation program under the same provisos as existed when the CHF was established: Short-term maintenance needs are paid for with immediately available cash and long-term improvements are eligible for funding using some kind of bonding program.

GARVEE EXPERIENCE



Source: Citigroup, *Information on Transportation Finance*, May 27, 2004

EXPERIENCE OF OTHER STATES

- States have issued GARVEE bonds for the following uses:
  - New construction and relocation
  - Reconstruction
  - Roadway rehabilitation and widening
  - Transit – buses and commuter rail (NJ)
  - Freight rail (RI)
  - 4-Lane Highway Program (MS)

- The amount and method of bonds issued ranges from $21 million in Alabama to $1.7 billion in Colorado, and $1.9 billion in Massachusetts.

- The issuing authorities include states, transportation boards (AZ, VA), tollway authorities, financing authorities, and economic development groups.

- The number of bonds issued ranges from one for several states, to four for MA, five for CO, six for NJ, and 12 for CA.

- GARVEE bonds have been issued by the states every year from 1998 to 2004.

States Using Bonding to Finance Highway Construction

(Dollars in Millions)

STATE	AMOUNT OF BOND	DEBT PAYMENT PERCENT*** OF ANNUAL FED. REV	STATE BOND RATING*
Alabama	--	31.3%	AA3, A
Arkansas	$ 175.0	--	--
Arizona *(Multiple Bonds)*	441.9	--	--
California	614.9	3.3 - 2.9%	
Colorado *(Multiple Bonds)*	2,096.1	50%	NR, NR
Georgia *(Multiple Bonds)*	300.0	--	--
Kansas**	--	14.1%	NR, AA+
Massachusetts *(Multiple Bonds)*	1,499.3	41.7%	Aa3, AA-
Michigan *(Multiple Bonds)*	600.0	N/A	Aaa, AAA
New Jersey	385.6	66.7%	Aa1, AA+
New Mexico	18.5	16.7%	Aa1, AA-
Ohio	113.8	2.7%	Aa1, AA+
Rhode Island	216.8	28.6%	Aa3, AA-
Virginia *(Multiple Bonds)*	1,098.0	29.6%	Aaa, AAA
Puerto Rico	139.9	13.2%	Aaa, AAA

* Moody, Standard and Poors
** Bonds repaid with federal funds, motor fuels taxes, and sales taxes
***Percentages calculated from debt service/apportionments ratio
-- Unknown

Source: Citigroup “Information on Transportation Finance” report to the State of Idaho, May 27, 2004

REAUTHORIZATION STATUS REPORT

(December 30, 2004)

1. **Appropriations Bill:** The FY05 Consolidated Appropriations bill (HR2673), including the Transportation/Treasury appropriation, was signed by the President on 12/08/04. The FY05 appropriation levels were roughly equal to the FY04 levels. It provides a total of $33.4 billion for highways and $7.3 billion for transit. Although the FY05 Appropriations bill has been signed, funding to the states is controlled by the latest TEA-21 Surface Transportation Extension bill (STEA04, part V). Currently, Obligational (spending) Authority is authorized through May 31, 2005, for highways and transit, allowing expenditure of 8/12ths of the annual appropriation amount.

2. **Reauthorization Status:** When the 108th Congress adjourned in December 2004, the previous TEA-21 reauthorization bills "SAFETEA" (Senate) and "TEA-LU" (House) died upon adjournment. The House/Senate Conference Committee had generally agreed to a national funding level of about $300 billion (compared to the TEA-21 level of $218 billion), an approximate split between the TEA-LU ($284 billion) and SAFETEA ($318 billion) funding levels. The 109th Congress which meets in January 2005, will need to reintroduce reauthorization legislation in both houses and then go to conference committee to produce a new bill. Senate and House transportation committee leaders have said that they plan to introduce legislation in January which is very similar to "SAFETEA" and "TEA-LU". The bills are expected to go to committee in February and to a floor vote in Congress in March.

   National funding levels will not be set until Congress receives Highway Trust Fund (HTF) revenue estimates from the Congressional Budget Office and Treasury Department. A provision in the recently enacted Tax Reform Act of 2004 will transfer the 2.5 cent/gallon ethanol fuel tax for deficit reduction from the General Fund to the HTF and also eliminate the 5.2 cent/gallon ethanol tax exemption. It is estimated that this will add approximately $24 billion in revenues to the HTF over the next five years, the likely period of the next reauthorization bill. This $24 billion would more than off-set the previous Treasury Department revenue projection made in July 2004, which estimated a $3.3 billion decline in HTF revenues.

REAUTHORIZATION STATUS REPORT

(continued)

3. **Idaho Estimated Funding Levels:** Under the previous surface transportation act, TEA-21, Idaho was apportioned approximately $1.26 billion in federal-aid highway funds over the six-year period. Based upon an approximate split between the proposed SAFETEA and TEA-LU national funding levels, Idaho would receive an estimated $1.58 billion for the reauthorization period of FY04 – FY09, a 25% increase over TEA-21 levels. This would represent a six-year average of $264 million annually.

IDAHO HISTORY OF BONDING FOR ROADS

- **1890** — Mount Idaho to Little Salmon Meadows Wagon Road: Construction of a wagon road was authorized from Mount Idaho to Little Salmon Meadows. Financing was through a bond issue of **$50,000 ($900,000 in current value)** with debt service provided through a territorial tax levy of two cents per $100 accessed value. The bond was approved on May 19, 1890. The entire route included 101 miles and was divided by the Wagon Road Commission. Location began at the north end of an existing wagon road at Wagon Bay on Payette Lake. It extended north along the west side of the lake via Secesh Summit and Burgdorf to the Salmon River with a river crossing at French Creek. It extended from there to Mount Idaho through the Mose Milner Trail. Contracts were completed by September 1891.

- **1893** — The first session of the state legislature in 1891 authorized a survey of a system of roads. The legislature authorized a modified system of roads in 1893 consisting of wagon roads in Boise, Custer, Lemhi, Idaho, Shoshone, Kootenai, Latah and Nez Perce counties. Finances came through a bond issue of **$135,000 ($2.43 million in current value)**. Debt service retirement was provided through a state ad valorem levy of three cents per $100 asset valuation. The proposal nearly failed when the initial legislation issued a bond for only $135.00. With full proceeds of the bond issue assured, the Wagon Road Commission authorized re-advertising for construction of the wagon roads in November 1893. Bids were awarded at the end of December that year.

- **1905** — At its first meeting in April 1905, the Wagon Road Commission received request for roads with an estimated total costs reaching $221,500—four and a half times the available funds, where at the times, funds available consisted of revenue from the sale of revenue bonds in the amount of **$50,000 ($900,000 in current value.)**

- **1907** — An additional **$5,000 ($90,000 in current value)** bond issue was authorized by the legislative session this year to complete the Atlanta Road on the stipulation local interests provided matching funds.

- **1911** — Idaho legislature requires all future road taxes to be paid in money (discontinued payment by working on road).

- **1912** — The 11th legislative assembly provided $20,000 for five miles of the public highway adjoining the right-of-way of the Oregon Short Line Railroad Company near Fort Hall extending to Gibson (Between Pocatello and Blackfoot).

IDAHO HISTORY OF BONDING FOR ROADS

(continued)

- **1913** — State legislature creates a five-member State Highway Commission. Commissioners, among other tasks, were given the responsibilities of registering vehicles (based on horse-power), motorcycles and license fees. The other main source of revenue was to be a bond issue for $200,000 authorized that year. No bids had been offered by its first meeting in Boise on May 12, 1913.

- **1915** — The state legislature re-authorized the **$500,000 ($9 million in current value)** state highway bond issue originally authorized in 1913 but not sold. The requirement that bonds be sold at par was also eliminated to facilitate the sale of the bonds. During 1915-1916 the State Highway Commission (now pared down to three members) designated six new highways. Revenues available to the commission during that time were increased by the sale of the First Highway Bond Issue for $200,000.

- **1917** — The State Highway Commission was extremely in debt to counties and highway districts for monies advanced to the state for construction. Revenues couldn't support the 411 miles of highways under state maintenance as of January 1917. Motor vehicle registration was the only substantial source of revenue. Ten percent of this revenue in 1917 and 1918 was committed to bond interest and retirement under terms of the First State Highway Bond Issue. From the critical construction needs, the legislature authorized a $1 million bond ($18 million in current value) issue to be repaid through an ad valorem tax levy of one of the mill per dollar of assessed legislation. Three-fourths of this money was specified to certain highways and provided a reimbursement to the counties that advanced funds to the state.

- **North-South Highway** — One-half the remaining funds of the above $1 million grant (about half of $76,000) were allocated to this project.

- **Summary from 1913 to 1919** — The state's share of the cost of construction activities was financed from the proceeds of bond issues. Total construction expenditures reached about $2,170,000. Bond proceeds provided more than half that amount: $1,200,000.

IDAHO HISTORY OF BONDING FOR ROADS

(continued)

- **1919** — The legislature authorized a state highway bond issue of **$2 million ($36 million in current value)** to locate, survey and build a state highway system. Because prior bond issues were at or near the $2 million constitutional bonding limit, the new authorization had to gain electorate approval at the 1920 general election. The legislature further stated the first obligation for these funds would repay monies ($823,000) loaned the state by counties and highway districts in 1916. The remainder would be available for construction.

- **1921** — The legislature repealed the continuing two-mill levy law after Idaho citizens approved a **$2 million ($36 million in current value)** bond.

- **1923** — Idaho legislature enacted a fuel tax.

- **1927** — Local units of government received $6.9 million in revenues and expended $5 million for construction, maintenance, debt service and other uses for state highways. Local units of government also had a bonded indebtedness of $17,887,600 of which about $11.1 million was for local corporation in the construction of state highways.

- **1933** — Idaho legislature repealed property tax on motor vehicles.

- **1935** — Total bonds outstanding at the close of this year "were $9,456,500 less a sinking fund of $1,182,536.92 or $8,273,963.08, a reduction during the biennium of $2,468,815.77." From 1926 to 1935, inclusive, county and highway districts received $14,644,824.46 of motor license fees to apply upon highway bonds principal and interest. During that time bonds outstanding were reduced $7,793,051.93.

- **1949** — Legislature made permanent the six-cent per gallon motor fuel tax. At the end of this year, bonded indebtedness was $820,000. The indebtedness dropped $424,000 within the previous decade. Essentially the drop was in Owyhee County that bonded for the paving of the road parallel to the Snake River stretching between Bruneau and Marsing.